

ESO 1895

**FARM ECONOMY**  
**1991 and Beyond**

Resource Materials  
for  
Educational Meetings

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THE OHIO STATE UNIVERSITY  
200 N. O. RD.  
COLUMBUS, OHIO 43210

Prepared by  
Allan E. Lines  
Department of Agricultural Economics  
and Rural Sociology  
The Ohio State University

January 1991

# **1991 Farm Economy**

**Short-Run Performance Influenced by:**

- **Global commodity levels**
- **Energy market stability**
- **General economic conditions**
- **Farm Bill impact**

# Farm Income

	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>
	<i>Billion dollars</i>			
<b>Gross cash income</b>	<b>170</b>	<b>178</b>	<b>184</b>	<b>185-190</b>
<b>Cash expenses</b>	<b>112</b>	<b>123</b>	<b>125</b>	<b>127-133</b>
<b>Net cash income</b>	<b>58</b>	<b>55</b>	<b>60</b>	<b>57-61</b>
<b>Noncash income</b>	<b>4</b>	<b>12</b>	<b>10</b>	<b>8-12</b>
<b>Noncash expense</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20-22</b>
<b>Net farm income</b>	<b>42</b>	<b>47</b>	<b>49</b>	<b>44-49</b>

## **Government Payments as a Share of Farm Income**

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<b>Year</b>	<b>U.S.</b>	<b>Northeast</b>	<b>Midwest</b>
<hr/> <b>(Percent)</b>			
<b>1986</b>	<b>7.8</b>		
<b>1987</b>	<b>10.0</b>		
<b>1988</b>	<b>8.5</b>	<b>1.8</b>	<b>13.2</b>
<b>1989</b>	<b>6.2</b>	<b>1.7</b>	<b>8.4</b>
<b>1990</b>	<b>5.1</b>	<b>1.6</b>	<b>6.8</b>
<b>1991</b>	<b>4.5</b>	<b>---</b>	<b>6.5</b>

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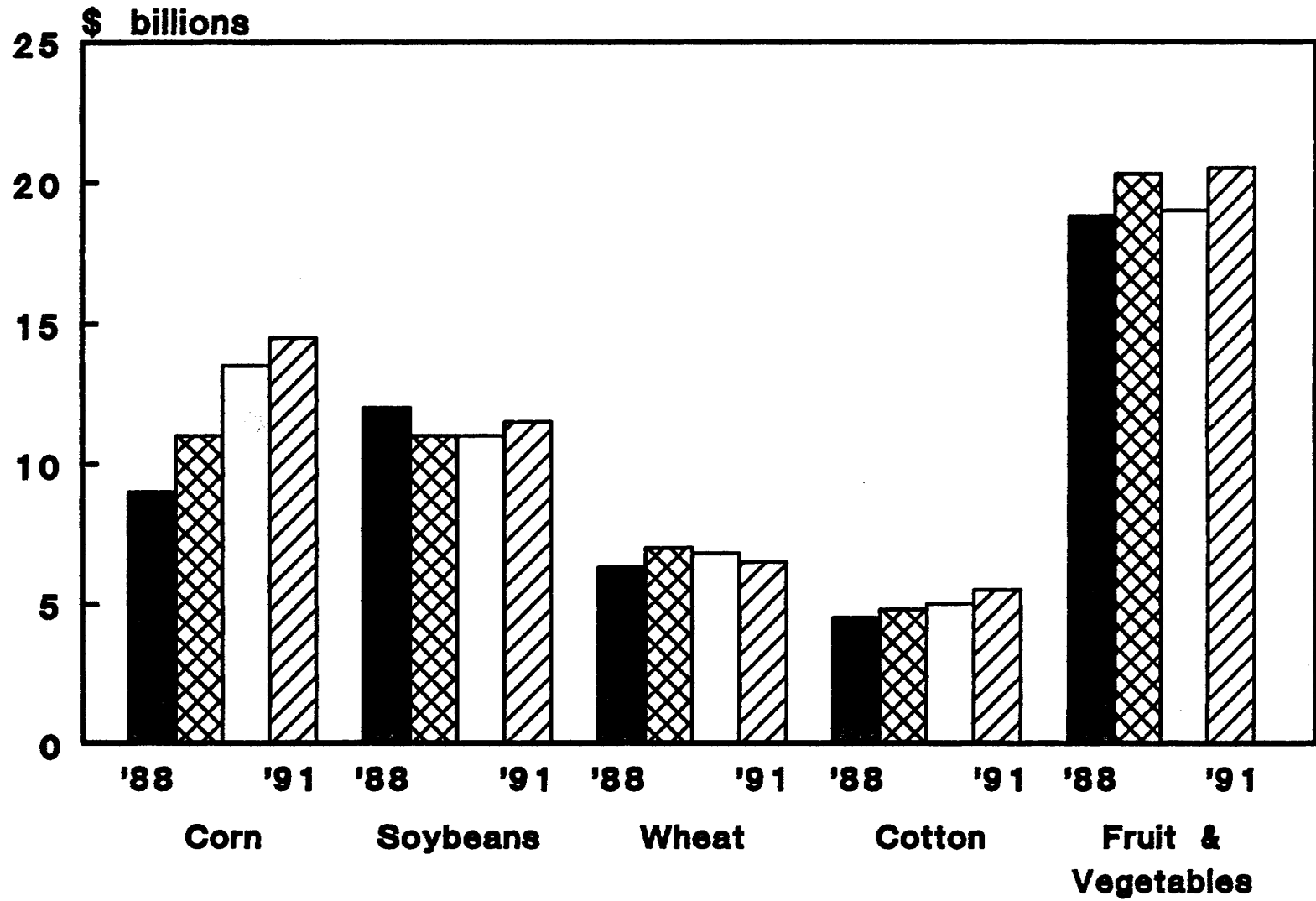
# Direct Government Payments

<u>Year</u>	<u>\$ Billion</u>
<b>1986</b>	<b>11.8</b>
<b>1987</b>	<b>16.7</b>
<b>1988</b>	<b>14.5</b>
<b>1989</b>	<b>10.9</b>
<b>1990</b>	<b>9.4</b>
<b>1991</b>	<b>8.4</b>

# **1991 Farm Finance Outlook**

- **Crop and livestock receipts**
- **Production expenditures**
- **Net income**
- **Farm balance sheet changes**
- **Financial performance**

# Crop Receipts



# **Farm Conditions Through Early 1990's**

**Strengthened economic fundamentals suggest:**

- **Hard finance lessons of mid-1980's make farmers cautious investors**
- **Farmers using variable inputs carefully**
- **With less debt, farmers can better withstand slight decrease in income**



# **Farm Economy Beyond 1991**

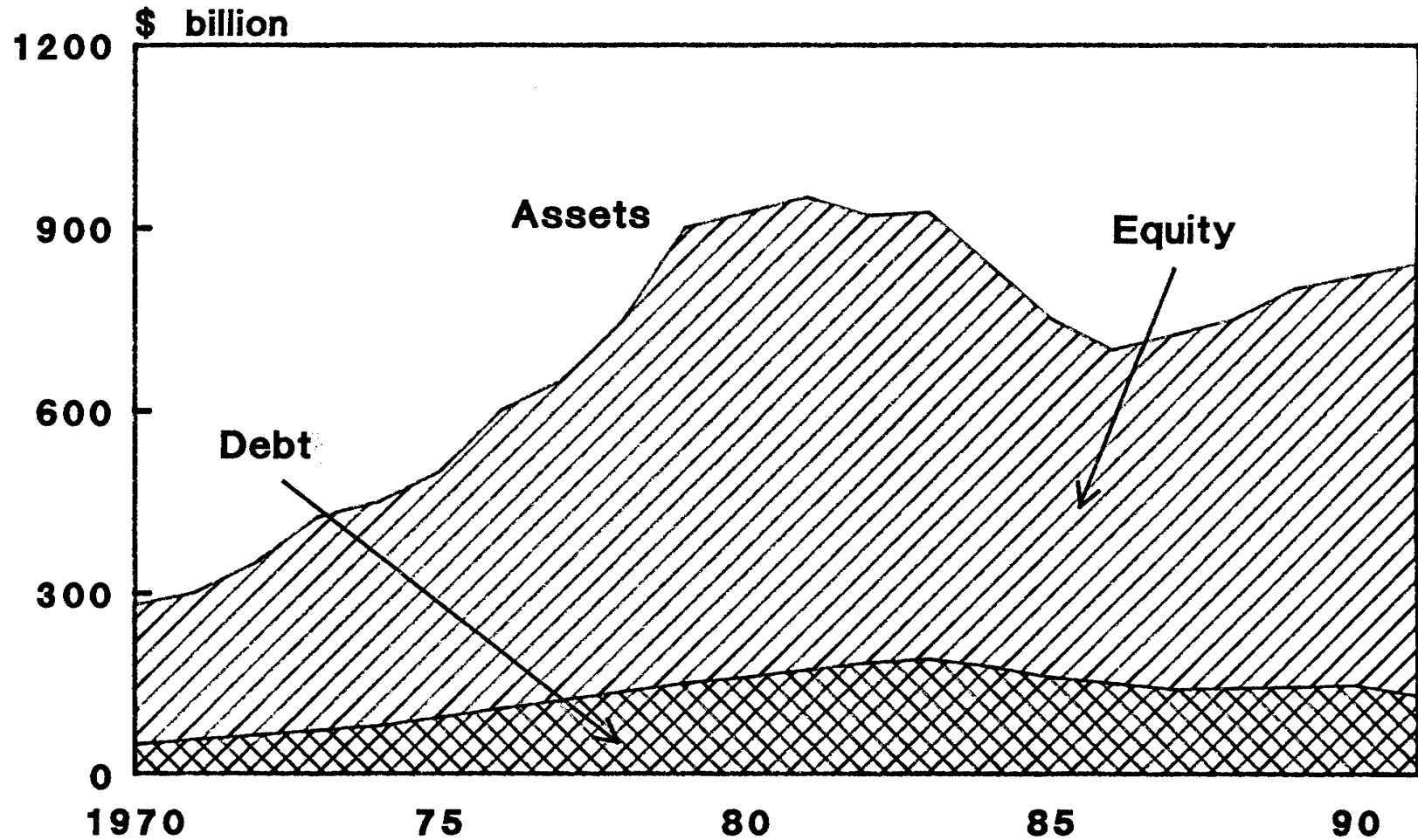
## **Farm Bill Impact**

- **Reduced government payments**
- **Greater producer flexibility**

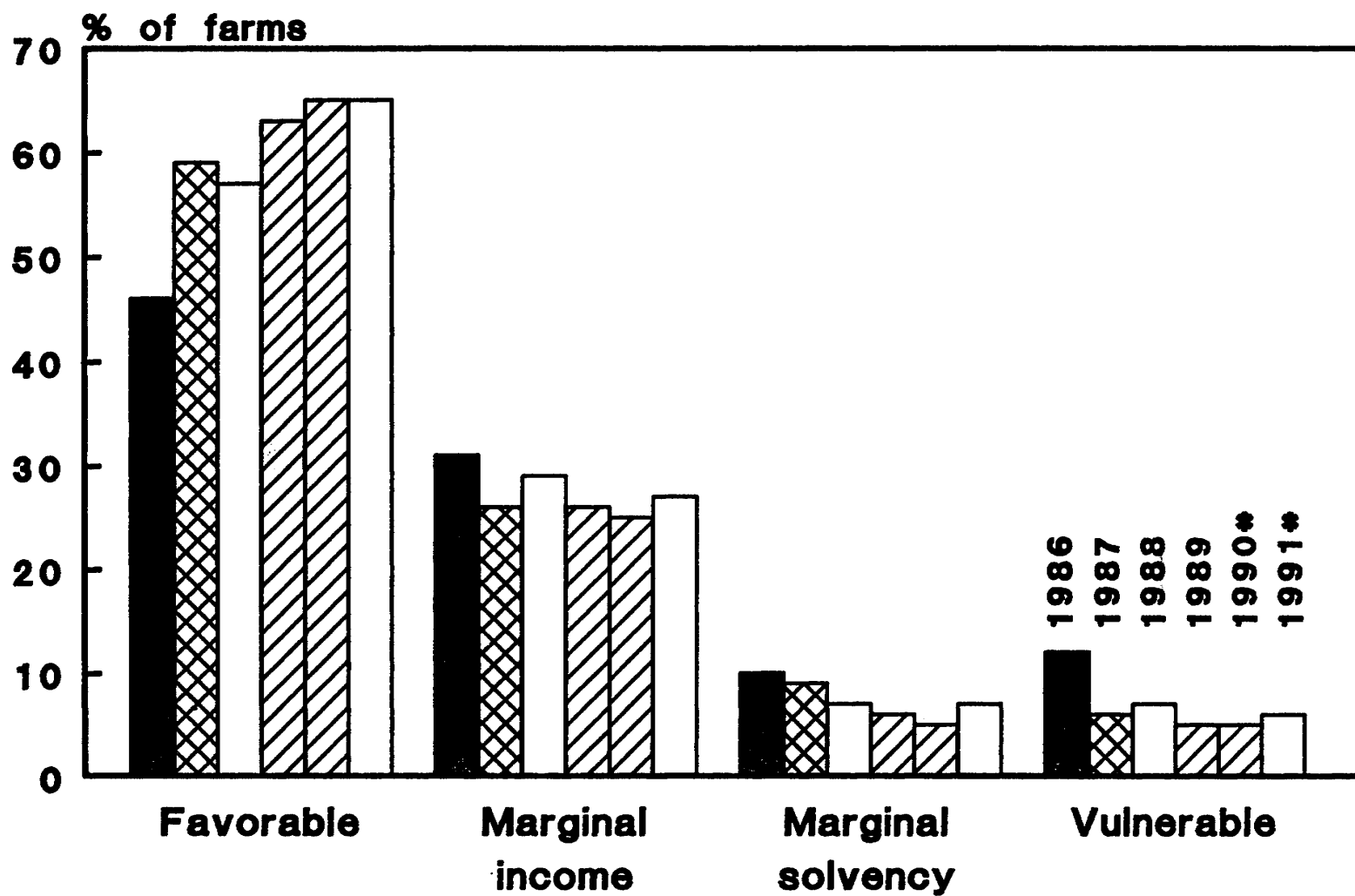
## **GATT Negotiations**

- **Reduced international support of agriculture**
- **Lower U.S. Government payments**

# Farm Assets, Debt, and Equity

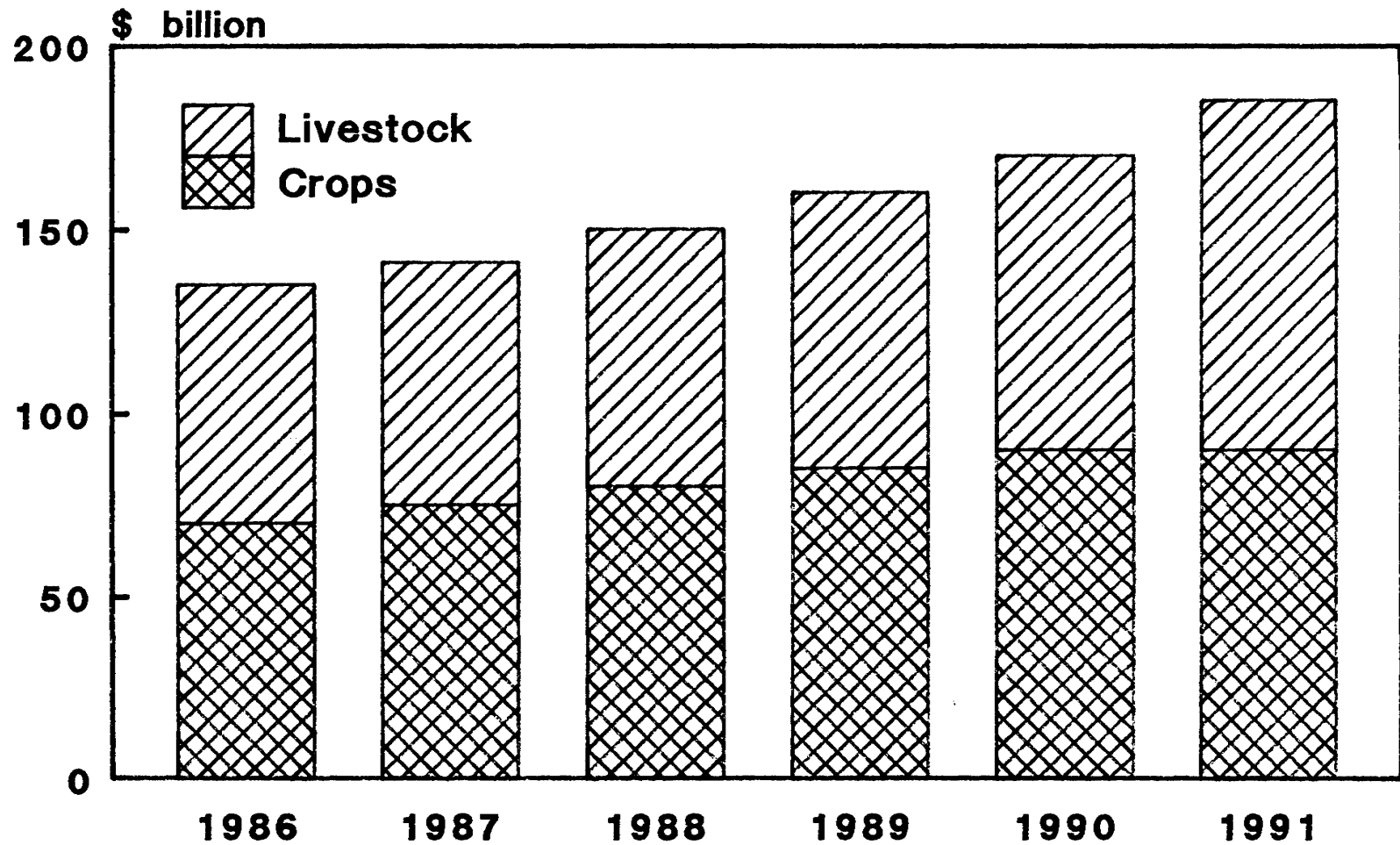


# Distribution of Farms by Financial Position



\* Forecast

# Cash Receipts



# Balance Sheet

**1987    1988    1989    1990    1991**

*Billion dollars*

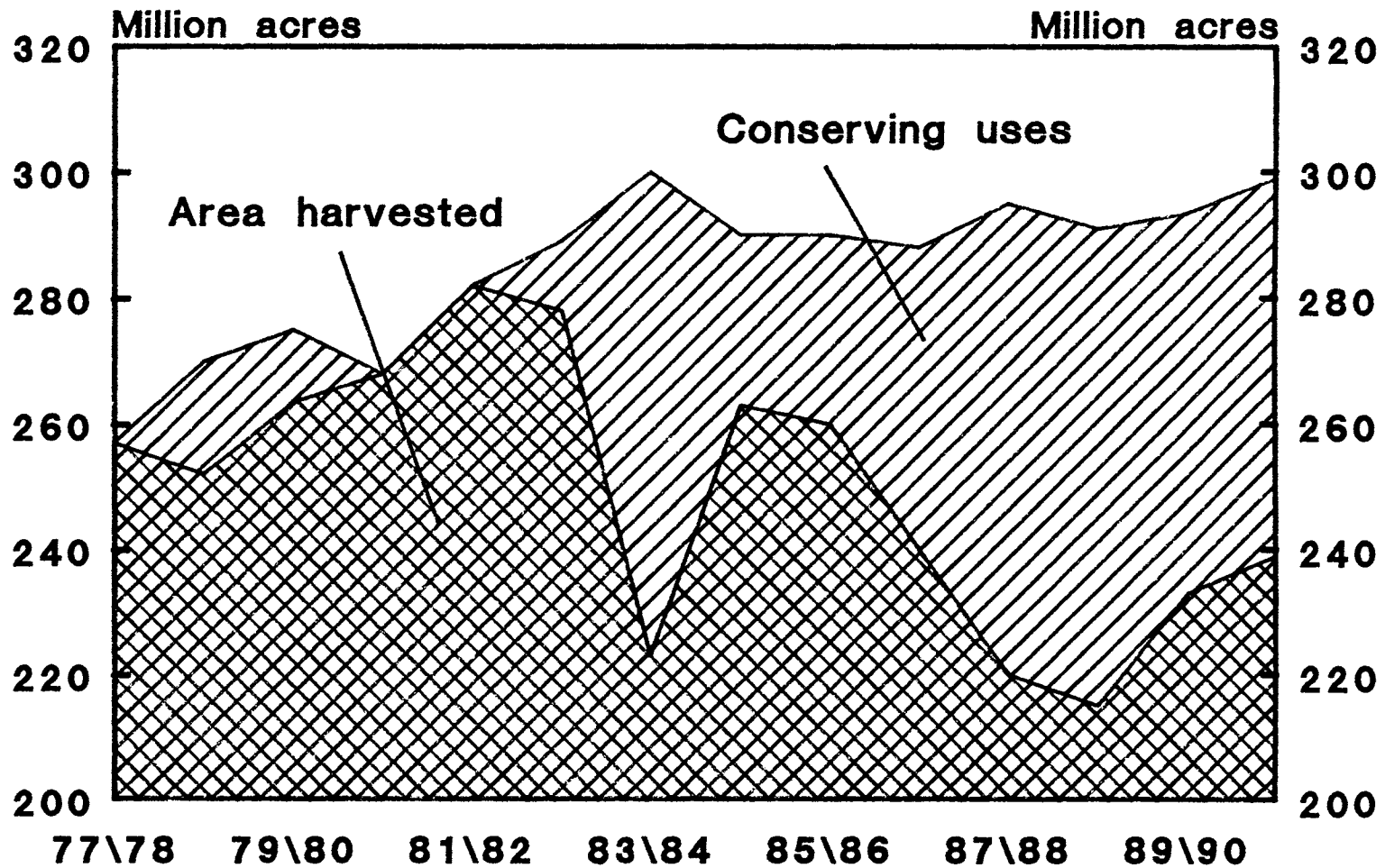
## **Current dollars**

<b>Assets</b>	<b>719</b>	<b>764</b>	<b>794</b>	<b>818</b>	<b>830-840</b>
<b>Debt</b>	<b>142</b>	<b>138</b>	<b>136</b>	<b>134</b>	<b>133-137</b>
<b>Equity</b>	<b>577</b>	<b>626</b>	<b>658</b>	<b>684</b>	<b>695-705</b>

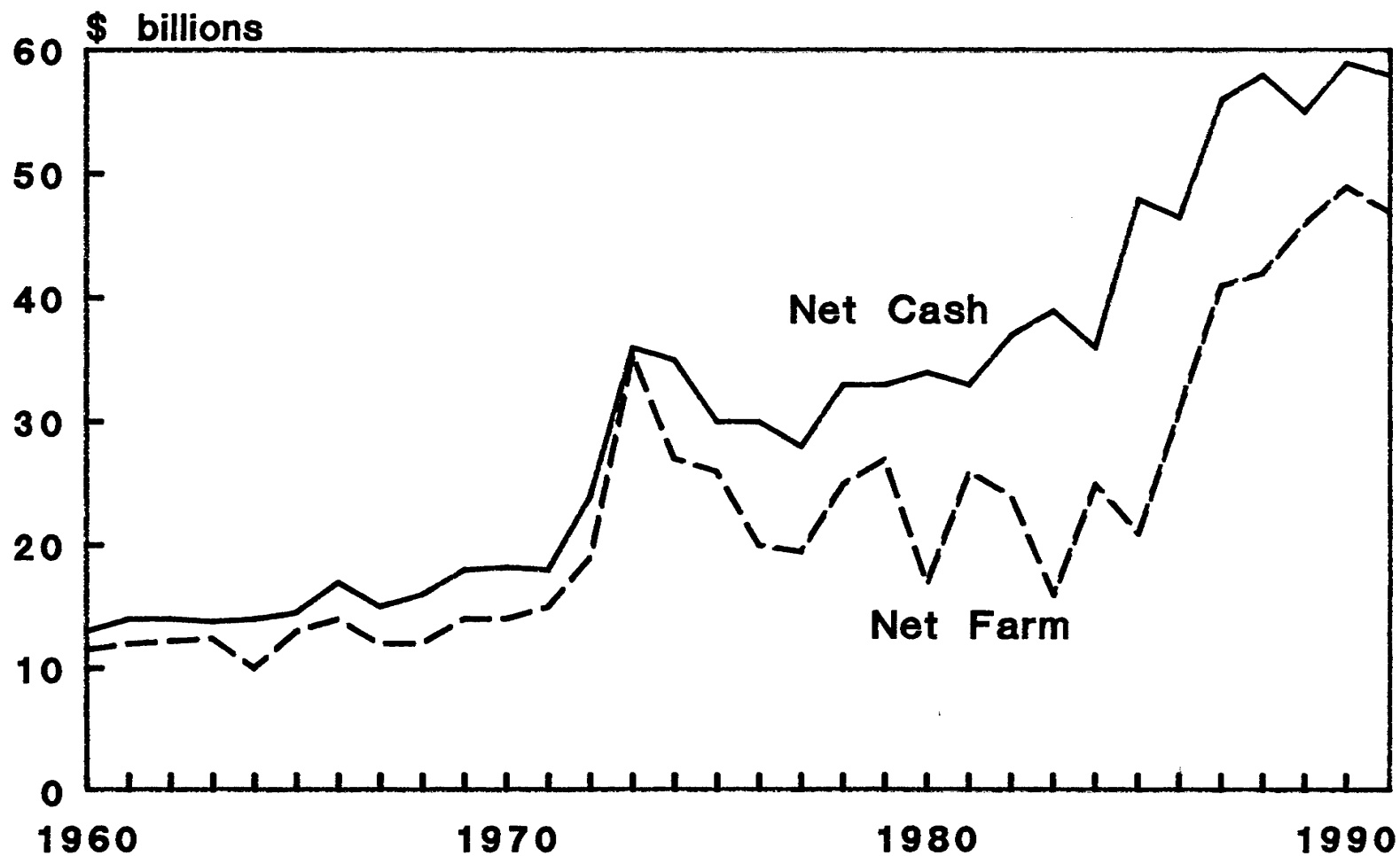
## **Deflated dollars (1982)**

<b>Assets</b>	<b>611</b>	<b>628</b>	<b>628</b>	<b>617</b>	<b>590-600</b>
<b>Debt</b>	<b>121</b>	<b>113</b>	<b>107</b>	<b>101</b>	<b>100-105</b>
<b>Equity</b>	<b>490</b>	<b>514</b>	<b>520</b>	<b>516</b>	<b>500-510</b>

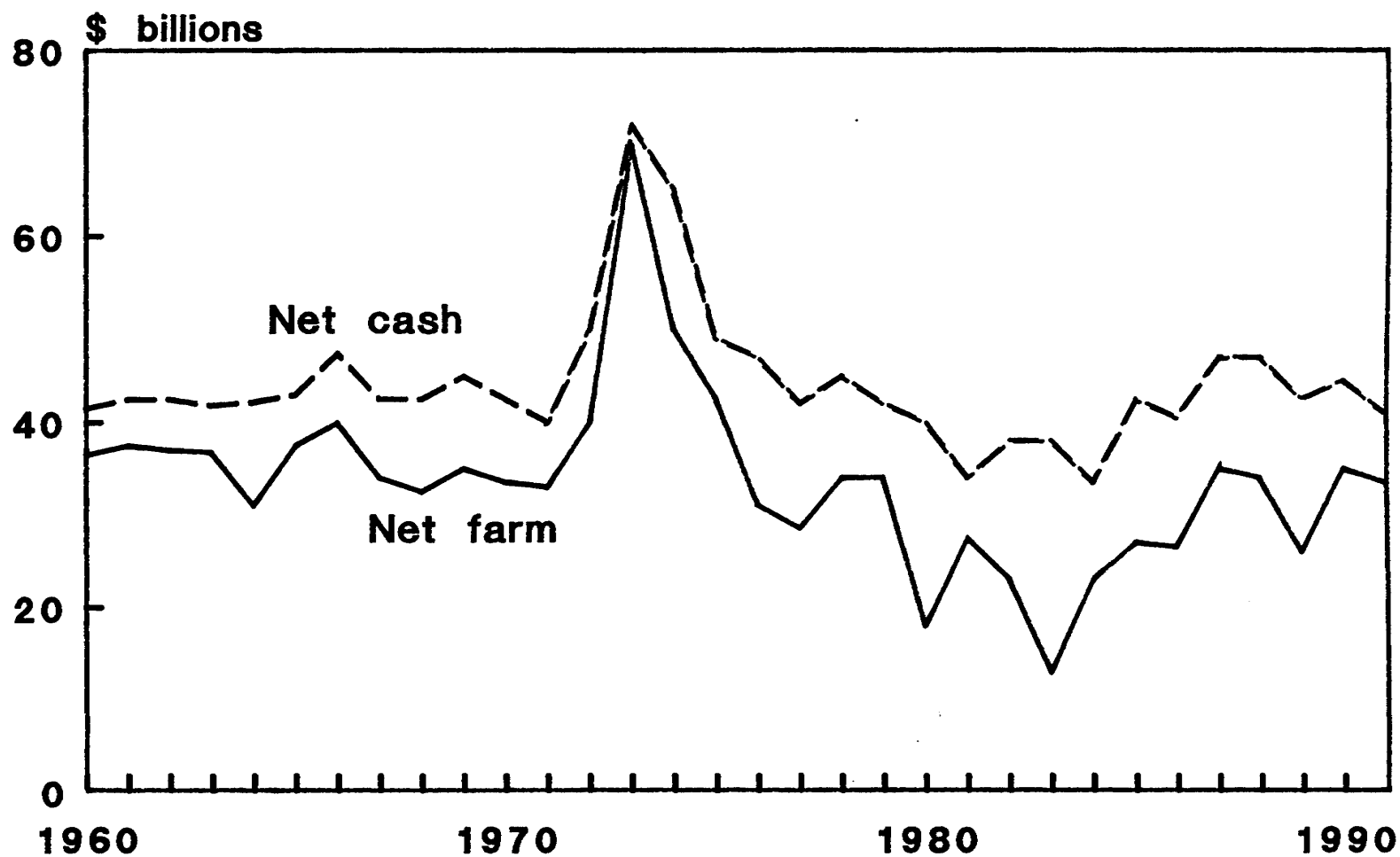
# Crop Area Harvested Plus Conserving Uses



# Farm Income, Current



# Farm Income, Real





# Financial Stress Has Stabilized

1986	1987	1988	1989	1990	1991
				Forecast	

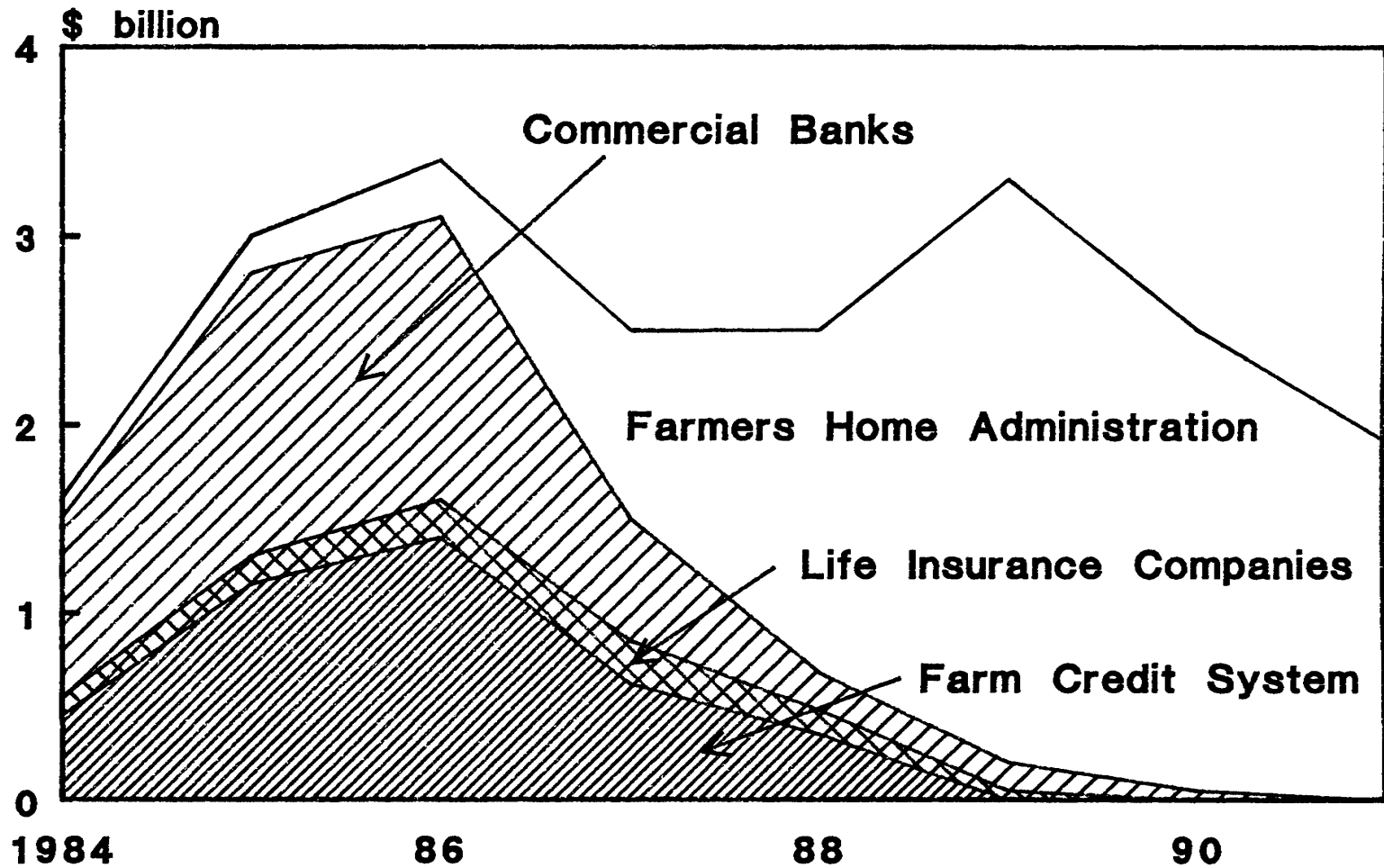
	<i>Thousand farms</i>					
<b>Financially vulnerable farms</b>						
Commercial farms	105	98	66	68	63	68
Small farms	110	105	76	73	71	76

	<i>Billion dollars</i>					
<b>Debt held on vulnerable farms</b>						
Commercial farms	33	31	20	20	18	20
Small farms	8	10	6	6	5	5

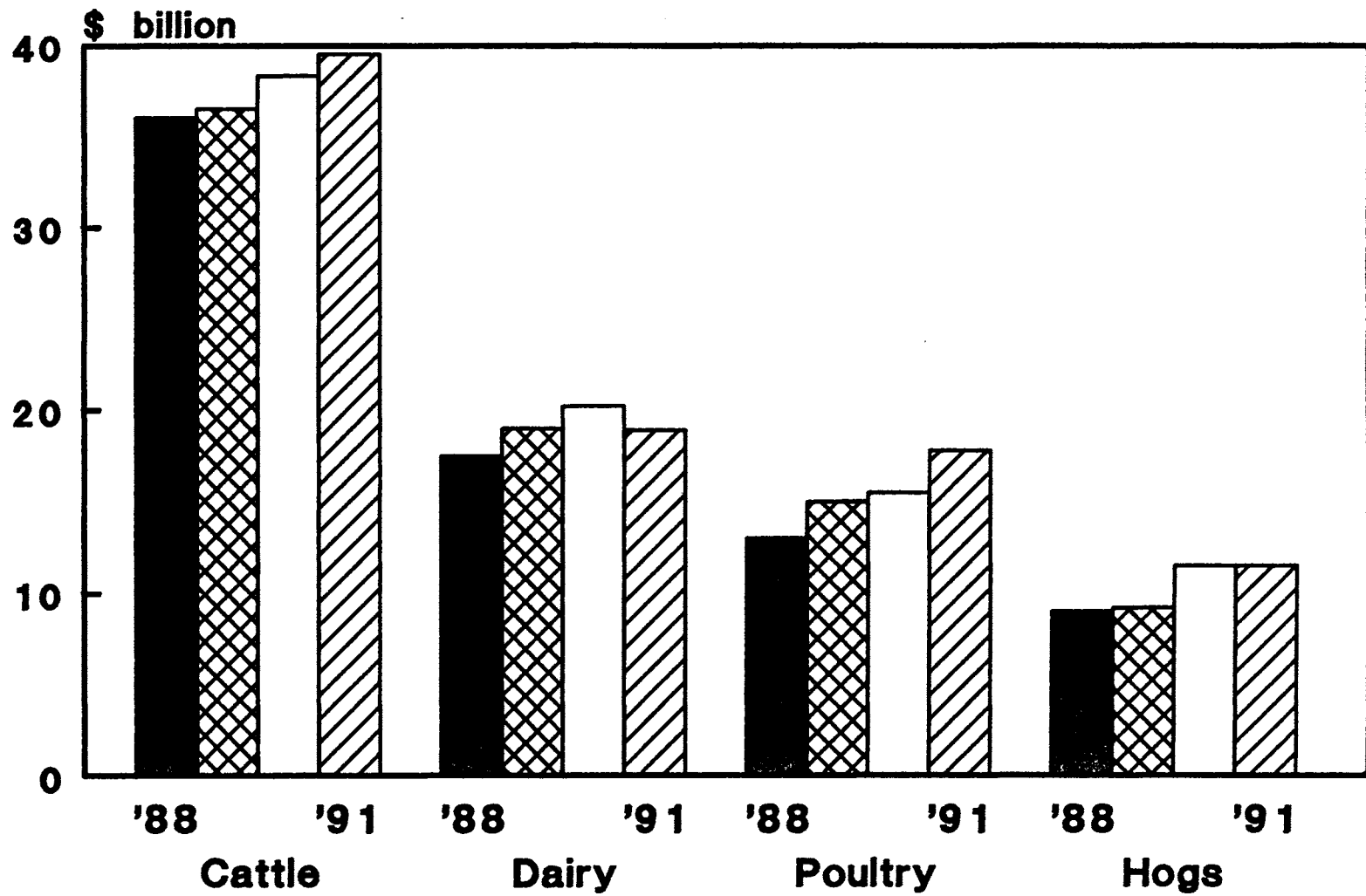
# **Guarded Optimism for 1991 Farm Economy**

- **Record commodity receipts**
- **Continued strong livestock profits**
- **Increasing crop stocks**
- **Rising farm expenses**
- **Moderate net income squeeze**
- **Less financial progress**

# Lender Loan Losses



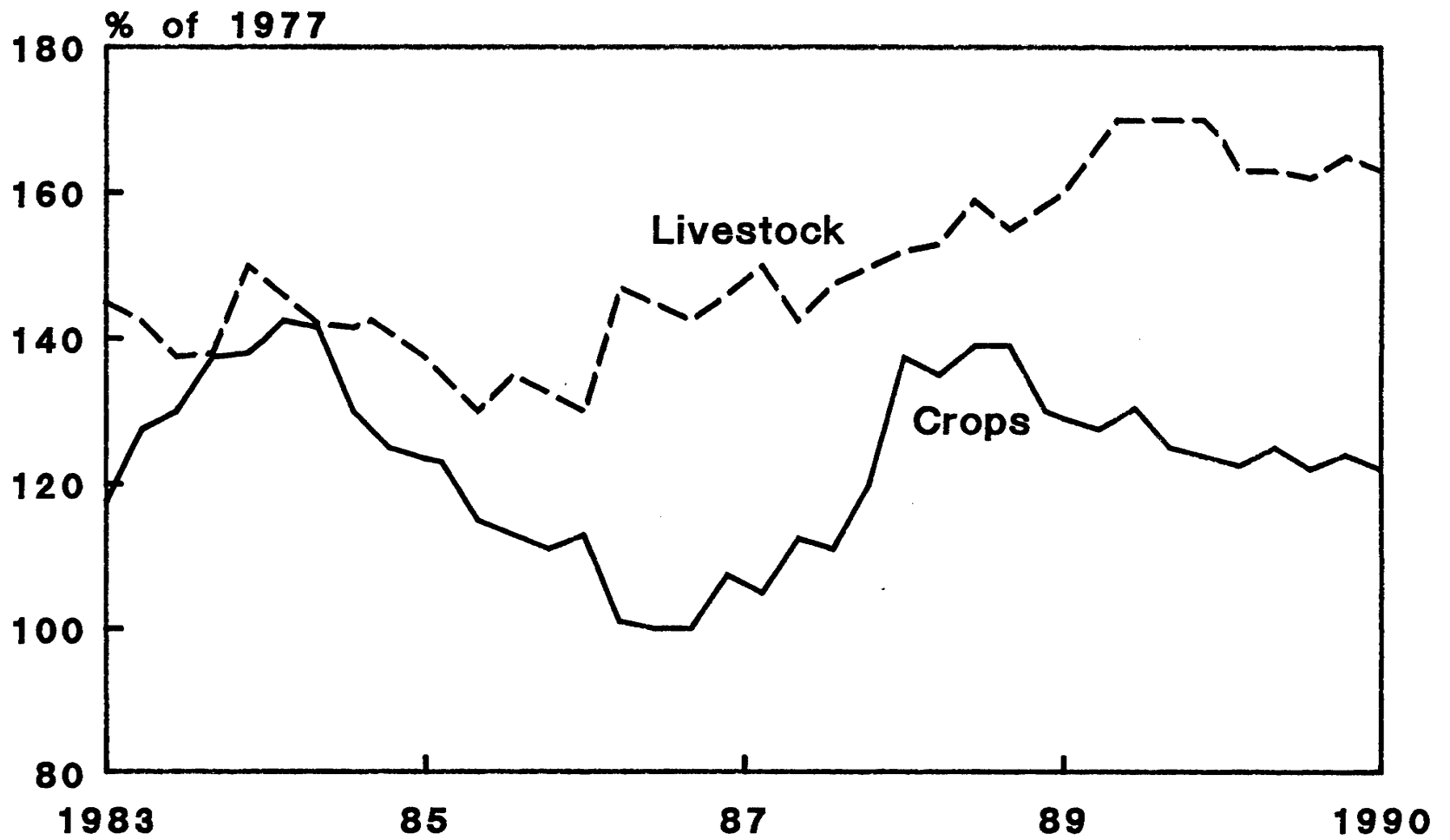
# Livestock Receipts



# Major Farm Problems

- **60,000 financially vulnerable farms**
- **Crop profits declining**
- **Government payments relatively high**
- **Pressures to remain cost-competitive in exports**

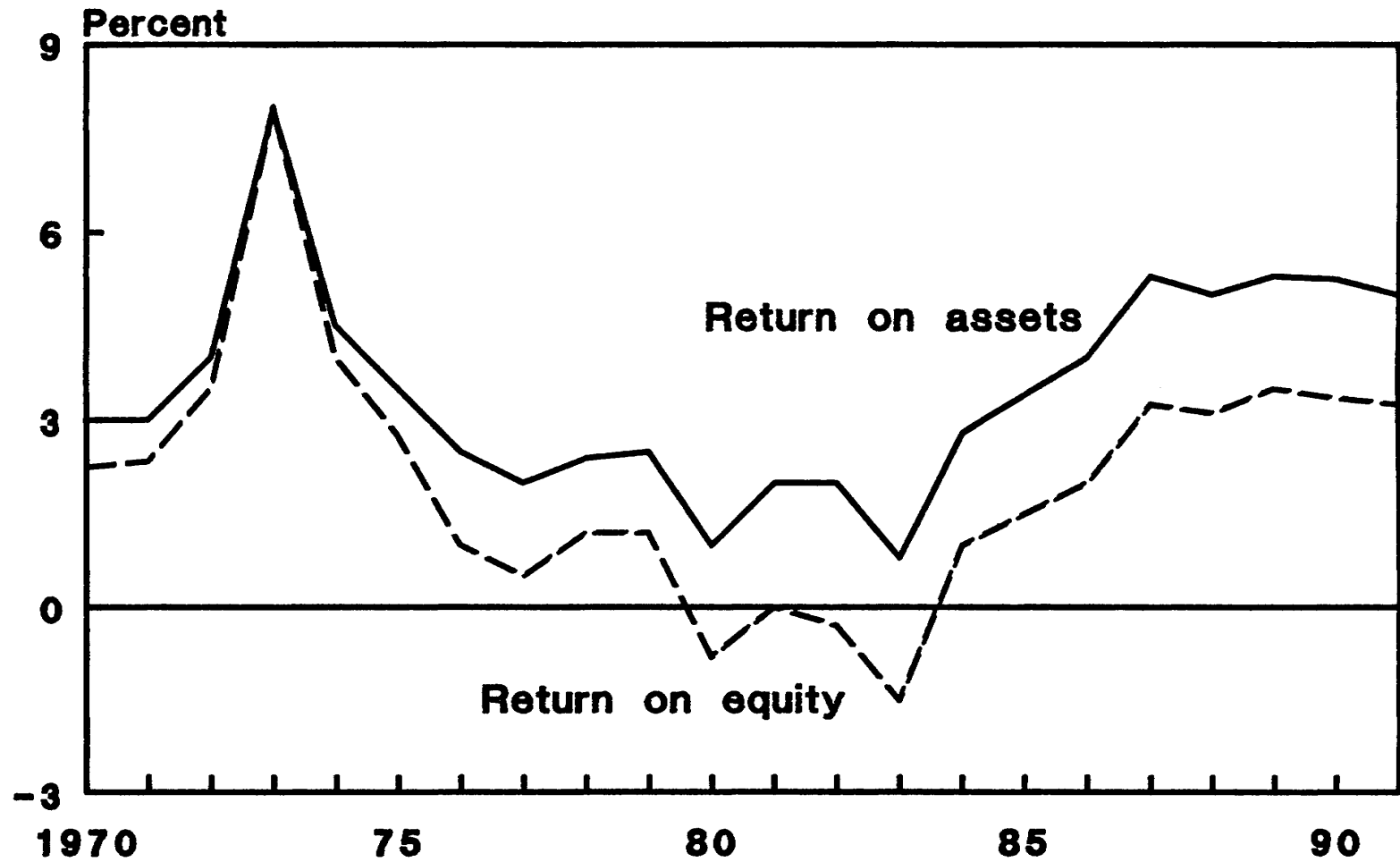
# Prices Received



# Production Expenditures

	1988	1989	1990	1991
	<i>Billion dollars</i>			
<b>Feed, seed, calves</b>	<b>37</b>	<b>39</b>	<b>40</b>	<b>40</b>
<b>Fertilizer, chemicals, fuel</b>	<b>18</b>	<b>21</b>	<b>21</b>	<b>23</b>
<b>Interest</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>
<b>Depreciation, taxes, rent</b>	<b>29</b>	<b>31</b>	<b>32</b>	<b>34</b>
<b>Total</b>	<b>132</b>	<b>143</b>	<b>146</b>	<b>149-154</b>

# Profitability Ratios

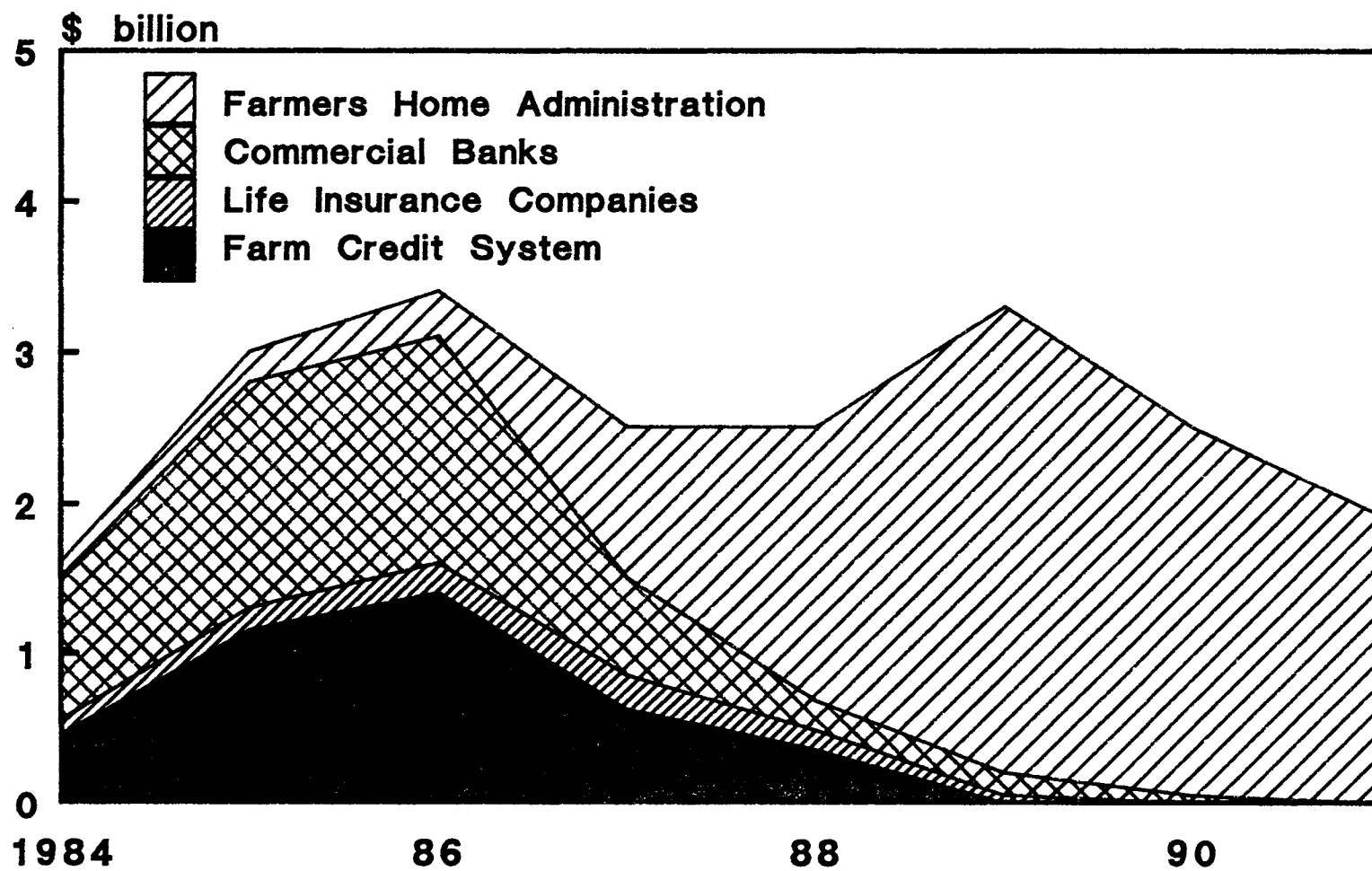




# Measures of Financial Performance

	1987	1988	1989	1990	1991
	<i>Percent</i>				
<b>Profitability</b>	<b>1.9</b>	<b>3.2</b>	<b>3.6</b>	<b>3.5</b>	<b>3.5</b>
<b>Return on equity</b>					
<b>Liquidity</b>	<b>13.2</b>	<b>12.4</b>	<b>11.6</b>	<b>11.0</b>	<b>10.8</b>
<b>Debt servicing</b>					
<b>Solvency</b>	<b>19.7</b>	<b>18.1</b>	<b>17.1</b>	<b>16.4</b>	<b>16.3</b>
<b>Debt/asset</b>					
<b>Financial Efficiency</b>	<b>8.7</b>	<b>8.3</b>	<b>7.8</b>	<b>7.3</b>	<b>7.5</b>
<b>Interest to gross</b>					
<b>cash farm income</b>					

# Lender Loan Losses



# Returns to Assets and Equity

	<u>Return to assets</u> Real capital			<u>Return to equity</u> Real capital		
	Income	Gains	Total	Income	Gains	Total
<b>1988</b>	<b>4.5</b>	<b>3.0</b>	<b>7.5</b>	<b>3.2</b>	<b>4.5</b>	<b>7.7</b>
<b>1989</b>	<b>4.7</b>	<b>1.2</b>	<b>5.9</b>	<b>3.5</b>	<b>2.3</b>	<b>5.8</b>
<b>1990</b>	<b>4-5</b>	<b>0-1</b>	<b>4-5</b>	<b>3-4</b>	<b>1-2</b>	<b>4-5</b>
<b>1991</b>	<b>0-0</b>	<b>0-0</b>	<b>0-0</b>	<b>0-0</b>	<b>0-0</b>	<b>0-0</b>

**1990 and 1991 Forecast**